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# *THE INTERIM*

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— NOVEMBER 2001 — HELENA, MONTANA — VOL. 13 NO. 6 —

## LEGISLATIVE COUNCIL

The Legislative Council met in Helena on Sept. 20 and 21. The Council continued its strategic planning for the interim and conducted a general business meeting.

As part of the Council's strategic planning, members and Legislative Services Division managers generated a list of ideas as possible strategies for addressing the following major issues:

1. **Public Image.** How can we improve the public image and perception of the Montana Legislature and build public confidence in the institution?
2. **Human Resource Needs.** Is the Legislative Services Division appropriately staffed, and how will we address issues such as the eventual turnover of permanent and session staff, compensation, and other human resources matters?
3. **Legislator Training.** How can we continue to provide effective training for legislators and legislative leadership?
4. **Infrastructure Needs.** How can the infrastructure needs of the Legislature and Legislative Services Division (e.g., adequate office space for permanent staff, sufficient parking during session, expansion of the legislative broadcasting system) be met?
5. **Interstate Participation and Cooperation.** How can we improve legislator participation in interstate organizations?

6. **Branch Structure.** How can we improve the structure of the Legislative Branch and address structural deficiencies?

At its general business meeting, the Council:

- received a publications update from staff, including a demonstration of the searching capabilities of the Internet version of the 2001 Montana Code Annotated;
- agreed to appoint a subcommittee to develop recommendations to mitigate the proliferation of multiple versions of code sections;
- heard a report from the Department of Administration on security issues in the Capitol Complex;
- received a progress report on efforts to expand the legislative broadcasting system; and
- adopted rules, procedures, and guidelines for the operation of interim committees.

Council to Meet in November...The Council's next meeting is November 30, 2001. For more information, contact Lois Menzies at (406) 444-3066 or [lomenzies@mt.gov](mailto:lomenzies@mt.gov)

## LOCAL GOVERNMENT AND EDUCATION COMMITTEE

Committee Meets With Board of Regents...The Education and Local Government Committee met on Oct. 3 in the state Capitol. Margie Thompson and Ed Jasmin, chair and vice chair, respectively, of the Board of Regents presented the "Mission, Vision, and Goals of the Montana University System" and briefly addressed the tuition increases. Overall, tuition increased in the University System by 13%; about 8% the total dollar amount of the increase will be devoted exclusively to quality enhancements at each campus.

Committee members asked the Regents about such topics as the condition of University System buildings, energy costs, campus security and multicultural awareness in light of the events of Sept. 11, advanced placement programs, enrollment increases, transfer of academic credits between campuses, and attracting quality teachers and administrators.

Committee Hears About Japanese Schools...Rep. Tom Facey, who visited schools in Japan last summer, gave a slide presentation on Japanese education. Rep. Facey said that education is extremely uniform across the nation, both in curriculum and in facilities. Japanese students are placed in vocational or pre-college courses based on test results. According to Rep. Facey, schools promote a greater sense of community and cooperation than do American schools. In Japan, teaching is a very honorable profession. For every open teaching position, there are at least three applicants.

Committee Adopts HJR 41 Study Plan...Following some discussion, the Committee adopted the study plan prepared by staff for the study of territory transfers between school districts (HJR 41). The Committee will devote a major portion of the Nov. 2 meeting to the HJR 41 study. Staff was instructed to distribute the study questions in the study plan to the Committee's interested persons and to post the questions on the Committee's website. People will be invited to respond in writing. Staff will compile the responses and prepare options for the Committee's consideration on Nov. 2.

Committee Meets Jointly With School Funding Advisory Council...In the afternoon, the Committee held a joint meeting with the Public School Funding Advisory Council (see below for a related article on the Council). John Augenblick, of Augenblick and Myers, and Michael Griffith, of the Education Commission of the States, spoke with both groups on the issue of school funding and offered some suggestions for revising Montana's school funding formula. Their trip to Montana was paid for entirely by the Education Commission of the States.

Augenblick discussed recent trends in school finance. Some of the more important trends are:

- ? Public school revenues did not increase as rapidly in the 1990s as they had in the previous two decades.
- ? The call for accountability in education is growing.
- ? School finance systems are becoming more equitable.
- ? The new targets of litigation are on adequacy in support of current operating expenditures and the state role in paying for facilities.
- ? States are expanding the use of "foundation" type systems and examining new approaches to developing the base level required by these systems.
- ? States are creating "second tiers" to provide districts with an equalized opportunity to generate funds above the adjusted base.
- ? States are using strong measures to assure revenue equity.
- ? States are examining the use of performance-based fiscal incentives.
- ? Some states are evaluating their school finance systems more formally.

- ? There appears to be a growing interest in modifying the way teachers are paid.

Augenblick also discussed funding issues specific to Montana. He offered a number of suggestions for addressing declining enrollments, including averaging ANB over a set period of time, maintaining a constant level of funding regardless of decreases in enrollment, and using "corridor" funding to set limits on when to take action.

Another issue facing Montana is how to accurately represent costs in the funding formula for the state's many rural and extremely rural schools. Augenblick suggested that the state could provide added support based on the size of schools or school districts. He added that the state may want to distinguish between schools or school districts that are necessarily small because of distance to another school and schools that are small by choice. Other ideas for addressing rural issues are incentives to encourage sharing or consolidation across districts, greater use of technology, and reorganizing school districts to create larger administrative units.

The issue of "pupil weights" led to a long discussion between Augenblick and the Committee and Council members. Pupil weights are used to reflect the cost pressures associated with particular types of students, particular types of programs, or particular characteristics of schools or school districts. Weights express the cost of pupils, programs, or characteristics relative to a particular "standard" service, such as regular programs for students in elementary school. Weights are often used with special education students, students with limited English proficiency, and students at risk of dropping out of school. Weights can also be used to take into consideration other cost factors such as school size or regional cost differences.

Michael Griffith discussed the issue of teacher recruitment and retention and what other states are doing in this matter. Some of the ideas presented were across the board salary increases, signing bonuses, tax breaks, and alternative certification. Council members asked about different types of salary schedules. Griffith said that some possibilities are a statewide salary schedule, pay for performance schedules, or tiered schedules.

Augenblick also talked about alternative ways to determine an adequate level of support for public schools in a state. He discussed the professional judgment approach, the successful school district approach, the whole-school model, and the complex statistical approach. Only a few states have used the professional judgment or the successful school district approaches, and no state has used the other approaches as of yet.

To Meet in November...The Committee will meet again on Friday, Nov. 2 in Room 137 of the Capitol, beginning at 9 a.m. The Committee will hear updates on local government issues, including the District Court Council, the HJR 22 Subcommittee, the implementation of HB 124, and the assumption of welfare services by the state. The Committee will also discuss the formation of a Postsecondary

Education Policy and Budget Subcommittee and will begin working on legislation to address the issue of territory transfers between school districts (HJR 41).

For further information about the meeting or to be placed on the interested persons list, please contact Connie Erickson at (406) 444-3064 or by e-mail at <cerickson@mt.gov>.

## PUBLIC SCHOOL FUNDING ADVISORY COUNCIL

Council Hears From National Experts...The Public School Funding Advisory Council held a joint meeting with the Education and Local Government Committee on Oct. 3 to hear presentations by John Augenblick and Michael Griffith on school funding issues. A complete report of the meeting may be found in the article on the Education and Local Government Committee.

Council Continues Its Work...The Council met Oct. 4 to continue its work on revising the current school funding formula for Montana public schools. The Council heard a number of reports from the Legislative Fiscal Division (LFD), the Office of Budget and Program Planning (OBPP), and the Department of Revenue (DOR). The LFD presented a regression analysis of spending per ANB for FY 2000 broken down by K-6, K-8, high school, and K-12. The OBPP analyzed the cost of providing a state-funded \$5,000 per certified FTE to every school district in the state and the cost of averaging ANB to soften the budget impacts related to declining enrollments. The DOR looked at funding school districts' BASE budgets with a uniform statewide levy and using guaranteed tax base aid for districts' over-BASE spending. The Council also looked at alternative methods for distributing HB 124 block grants to schools. DOR provided background information on the block grants while OBPP looked at tax equity and redistribution issues.

Council to Hold Two More Meetings...The Council will hold two more meetings in November to finish up its work and prepare a report for the Education and Local Government Committee. The report must be given to the Committee by Jan. 1. The meetings are scheduled for Nov. 1 and Nov. 30. Both meetings will be held in the Capitol beginning at 9 a.m. in a room yet to be announced.

The Council's minutes and meeting schedule and all reports given to the Council may be found at [www2.mt.gov/budget/Ed\\_Committee](http://www2.mt.gov/budget/Ed_Committee). You may also contact Amy Carlson, OBPP, at (406) 444-3616 or Jeff Hindoen, Governor's Office, at (406) 444-3111.

## SUBCOMMITTEE ON HEALTH CARE AND HEALTH

## INSURANCE

Subcommittee Meets in October...The SJR 22 subcommittee met on Oct. 29 to discuss various policy options for expanding health insurance coverage for Montanans. Specific subcommittee actions will be reported in the December issue of **THE INTERIM**. The next meeting is tentatively scheduled for Thursday, Nov. 29, in Helena (Room 137, state Capitol) beginning at 10 a.m.

Contact Gordy Higgins at (406) 444-3064, or by e-mail at [gohiggins@mt.gov](mailto:gohiggins@mt.gov) with questions regarding the activities of the SJR 22 Subcommittee.

## ECONOMIC AFFAIRS COMMITTEE

Next Meeting in November...The Economic Affairs Committee will meet on Friday, Nov. 30 in Helena. The tentative agenda includes:

- Updates from the Department of Labor and Industry on:
  - ? the Task Force on Workers' Compensation Fee Schedules for Providers of Physical Medicine;
  - ? inquiries to the Department regarding employee break periods during a work day;
  - ? the HJR 7 work group on employee travel compensation;
  - ? coordination of local government and state boiler inspections; and
  - ? the process for consolidating workforce development programs administered by the state under SB 469.
- A progress report on strategic economic planning from the Office of Economic Opportunity.
- A progress report on the activities of the SJR 22 Subcommittee on Health Care and Health Insurance.

Contact Gordy Higgins at (406) 444-3064, or by e-mail at [gohiggins@mt.gov](mailto:gohiggins@mt.gov) with questions regarding the activities of the Economic Affairs Committee.

## ENVIRONMENTAL QUALITY COUNCIL

Environmental Quality Council to Meet in December. . . The EQC will meet in Helena on Tuesday, Dec. 11. The EQC Subcommittees will meet on Monday, Dec. 10. Subcommittee activities are set out below.

The Council's and Subcommittees' minutes from previous meetings, Council and subcommittee work plans, agendas, and press releases, may be found on the EQC web site at <http://leg.mt.gov/Services/lepo/index.htm>. If you have any questions or would like additional information or to be placed on the EQC interested persons mailing list, contact the EQC office at 444-3742 or [mtheisen@mt.gov](mailto:mtheisen@mt.gov).

Coal Bed Methane/Water Policy Subcommittee . . . The Coal Bed Methane/Water Policy Subcommittee will meet in Helena on Monday, Dec. 10. The meeting will begin at the 8 a.m. in Room 102 of the state Capitol. The public is welcome to attend.

The Subcommittee has a full agenda. The primary water policy issue will be a panel discussion of Friends of the Marias & Missouri River Citizens, Inc. v. DNRC and Sunnybrook Colony, Inc. Representatives of the Department of Natural Resources and Conservation (DNRC) and legal counsel for the appropriate parties will discuss the Colony's proposal and the water use permit issued by DNRC.

The subcommittee will also hear several presentations related to coal bed natural gas. The tentative agenda includes presentations on: the draft environmental impact statement; permitting of coal bed natural gas facilities; management and monitoring of water produced from coal bed natural gas wells; and a scientific perspective on water produced from coal bed methane wells and its effect on various soils.

The subcommittee's final work plan, agendas, and other information are available on the subcommittee's website at <http://leg.mt.gov/services/lepo/subcommittees/wpsub.htm>. For more information contact subcommittee staff:

Water Policy -- Krista Lee Evans at (406) 444-3957 or by e-mail at [klee@mt.gov](mailto:klee@mt.gov); or

Coal Bed Methane -- Mary Vandenbosch at (406) 444-5367 or by e-mail at [mvandenbosch@mt.gov](mailto:mvandenbosch@mt.gov).

Agency Oversight/MEPA Subcommittee . . . The EQC Agency Oversight/ MEPA Subcommittee is scheduled to meet in Helena on Dec. 10. The subcommittee is reviewing the executive agencies' implementation of the Montana Environmental Policy Act following the 1999-2000 EQC study findings and recommendations and the 2001 legislative changes to MEPA. A panel of agency officials will present information to the subcommittee. The implementation of the Controlled Allocation of Liability Act and orphan share funding by the Department of Environmental Quality will also be reviewed. The department will explain the process and the policies. The subcommittee

is also tracking the issues and options facing the state regarding the management of sage grouse. The subcommittee will consider updates on this issue and the Fish, Wildlife, and Parks Commission will discuss the adoption of a biennial seasonal rule regulating the use of the Big Hole and Beaverhead rivers.

Information about the subcommittee, copies of meeting agendas, minutes, and reports may be found at <http://leg.mt.gov/services/lepo/subcommittees/oversightsub.htm>. For more information, contact Larry Mitchell at (406) 444-1352 or by e-mail at [lamitchell@mt.gov](mailto:lamitchell@mt.gov).

Energy Policy Subcommittee . . . The EQC Energy Policy Subcommittee will meet in Helena on Monday, Dec. 10. The subcommittee's agenda includes the following:

- staff presentation on the electric industry restructuring laws;
- staff overview of the various players involved in energy policy development and implementation in Montana;
- possible panel discussion involving federal and regional authorities and their respective roles in the implementation of energy policy;
- reports on energy demand, supply, price and conservation in Montana;
- report on the status of the transmission system in Montana and the Northwest region; and
- an outline of the Montana Energy Law Handbook.

Staff memorandums and subcommittee agendas, minutes, and the energy policy work plan may be found at <http://leg.mt.gov/services/lepo/subcommittees/energysub.htm>. For more information contact Todd Everts at (406) 444-3747 or by e-mail at [teverts@mt.gov](mailto:teverts@mt.gov).

## LEGISLATIVE FINANCE COMMITTEE

Legislative Finance Committee Meets in October...The Legislative Finance Committee (LFC) covered a variety of topics at its Oct. 5 meeting. Reports from the meeting are available on the Legislative Fiscal Division (LFD) website at <http://leg.mt.gov/fiscal/index.htm>.

Fiscal Year End 2001 General Fund Balance...Good news! But it comes with cautions as well as a dilemma. Terry Johnson, Principal Analyst, presented the results of an in-depth analysis of the general fund at the end of fiscal year 2001. The ending fund balance of \$173.5 million is \$62.7 million more than anticipated by the Legislature at the end of the 2001 session. The increase is due to a larger than expected beginning fund balance (\$17 million), higher revenue collections (\$38.6 million), and greater reversions (\$9.6 million), less negative adjustments (\$2.5 million). Higher than expected collections from corporation taxes, oil and natural gas taxes, individual income taxes, property taxes, treasury interest, and US mineral royalties accounted for most of the revenue increase. Although reversions increased by \$9.6 million, \$5.3 million will be spent in fiscal year 2002, thus leaving a "true" reversion of \$4.3 million. Lower expenditures by the departments of Public Health and Human Services and Corrections, and the Office of Public Instruction led to the higher reversions.

Johnson cautioned the committee that the increase of \$62.7 million applies only to fiscal year 2001 and does not take into account for the 2003 biennium such things as federal tax reform, expenditures for emergencies, and changes in general economic conditions. He also pointed out that \$37.6 million of the ending fund balance was likely due to one-time events that may not continue in the future. This presents a dilemma for future legislatures. What will the legislature and executive do with the larger than expected ending fund balance in the 2005 biennium? Will it be spent on one-time activities or will it be spent for on-going activities, thus exacerbating the structural deficit?

A pocket brochure summarizing the report is available upon request. If you have questions about the general fund or revenue estimates, please contact Terry Johnson at (406) 444-2952 or by email at [tjohnson@mt.gov](mailto:tjohnson@mt.gov).

Federal Tax Reform...Federal tax legislation enacted earlier this year will directly and indirectly impact state revenues. Jim Standaert, Senior Fiscal Analyst, discussed the major provisions of the legislation. The legislation reduces federal tax rates over the next ten years, increases the child tax credit, expands education IRA eligibility, reduces the federal marriage penalty, and phases out the federal estate tax.

Because reductions in federal tax payments reduce the amount of the Montana deduction allowed for federal taxes, state income tax revenue will increase. On the other hand, the new law exempts a portion of income for some educational expenses. Because Montana adjusted gross income begins with federal adjusted

gross income, state exemptions for this purpose will also increase, thus reducing state income tax revenue.

In addition, reductions in state revenues due to the phase-out and repeal of federal estate tax provisions will also partially offset other provisions that increase state revenues. The net effect of changes to federal tax law is a small increase in state revenue over the next ten years. Further analysis of the legislation and the impacts on state revenue will be conducted next fall prior to the 2003 legislative session. If you have questions about the new federal law and how it affects Montana, please contact Jim Standaert at (406) 444-5389 or by email at [jstandaert@mt.gov](mailto:jstandaert@mt.gov).

Gambling Control Division Automated Accounting and Reporting System...Gene Huntington, Gambling Control Division Administrator, reported on the sequence of events that led to the termination of the contract with Lodging and Gaming Systems, Inc. to develop and implement an automated accounting and reporting system (AARS) for video gaming machines. Huntington discussed litigation that ensued from the termination of the contract and presented several options that are being considered for completion of AARS. In fiscal year 2001, \$929,115 was spent on the contract to develop AARS; no expenditures have been made to date from fiscal year 2002 appropriations.

Information Technology...Brian Wolf, the new chief information officer for the state, was introduced to the committee. He summarized the first Information Technology Board meeting held in September. The committee expressed concerns for the governance of information technology resources. In response, Wolf described what his office will be doing to address those concerns.

TANF Implementation...The Department of Public Health and Human Services (DPHHS) reported on expenditures from the Temporary Assistance for Needy Families (TANF) block grant. HB 2 requires that DPHHS report at every meeting of the LFC: (1) the actual amount of federal TANF funds expended in the current biennium; (2) the actual amount of TANF block grant maintenance of effort funds expended in the current biennium; (3) the balance of previous fiscal years' TANF block grant funds that remain unexpended; and, (4) the balance of the current fiscal year federal TANF block grant funds that remain unexpended. According to the DPHHS report, as of August 2001: (1) \$6.6 million of TANF funds have been expended while \$22.9 million have been transferred to the child care development fund and Title XX; (2) \$243,000 has been expended on maintenance of effort; (3) \$4.8 million of previous years' TANF funds remain unexpended; and, (4) \$23.6 million of current year TANF funds remain unexpended, for a total of \$28.4 million of unexpended funds.

DPHHS is projecting a deficit in federal TANF funds of \$9.2 million for the biennium. DPHHS presented a plan to proportionally reduce spending in Families Achieving Independence in Montana (FAIM) Phase II R items, in accordance with HB 2, so that TANF spending does not exceed the available federal funds. DPHHS plans

to reduce spending for each TANF FAIM Phase II R item by approximately 35%. Legislative staff advised the LFC that the DPHHS plan may not comply with the requirements of HB 273 passed by the 2001 Legislature. HB 273 requires that DPHHS transfer \$3.4 million of TANF funds to the affordable housing revolving loan account. The LFC requested a legal opinion on this issue from the LSD Director of Legal Services, Greg Petesch, and that this item be placed on the agenda for the next LFC meeting.

DPHHS also reported that the TANF cash assistance caseload has been increasing and was 5,246 in August 2001, a 16.8% increase over the caseload of 4,493 in August 2000. DPHHS is projecting cash assistance costs of \$27.4 million, or 13.9% greater than the fiscal year 2002 appropriation of \$24.1 million. Legislative staff speculated that a portion of this caseload increase may be due to policy changes such as the change in the family-of-one grant that was approved by the Legislature last session. Information regarding the portion of the caseload increase attributable to policy changes was not available at the time of the LFC meeting.

Fire Suppression Costs...The committee heard a status report on the cost estimates for fire suppression for the 2001 fire season. The state does not appropriate general fund money to suppress wildfires. Instead, it historically reimburses for fire suppression costs by a supplemental appropriation in the following legislative session. The governor may also use a statutory appropriation of up to \$12 million if a wildfire emergency is declared (however, this emergency fund is also used for other emergencies). As of Oct. 5, the total estimated cost to the state for fire suppression is \$8.8 million. For further information, contact Gary Hamel at gahamel@mt.gov or at (406) 444-2986.

Highways State Special Revenue Account: Working Capital Update...The Department of Transportation reported on the status of the highways state special revenue account that included a much improved forecast. Revised projections show fiscal year end working capital balances in the account above \$18.6 million through the end of the 2007 biennium. The account is expected to maintain a structural balance through fiscal year 2004, after which a structural imbalance caused primarily by the potential impacts of alcohol and ethanol incentives would begin to erode the account balance.

Review of Dedication of State Revenues to Local Government...The subcommittee met on Oct. 4 to kick off the interim study required by SB 162. After a discussion of SB 162, the criteria to be used in the review process, and the procedures that the subcommittee would follow, the review process began with a list of 27 dedicated revenue provisions. Of 18 provisions discussed, only 3 or 4 will require further analysis. Additional provisions will be identified by staff in the coming months as the subcommittee work continues. The subcommittee members are Sen. Zook, chair; Sen. Nelson; Rep. Forrester; and Rep. Kasten. For further information, contact

Jon Moe at jonmoe@mt.gov or by telephone at 444-4581.

Interim Study of Public Mental Health Services (HJR 1)...The subcommittee appointed to conduct the interim study of public mental health services (HJR 1) held its first meeting Sept. 17 and 18. The subcommittee (Sen. Keenan, chair; Rep. Price, vice chair; Sen. Cobb; Sen. Franklin; Sen. Stonington; Rep. E. Clark; and Rep. Jayne) adopted a study plan, took public testimony, and heard several presentations relative to public mental health services.

Although the study plan concentrates on public adult mental health services, it also includes the oversight of such issues as: implementation of provider networks for children's mental health services related to SB 454; projected appropriations compared to expenditures for public mental health services, including state mental health institutional populations; development of plans to move persons who can be served in the community from state institutions in compliance with the U.S. Supreme Court Olmstead decision; and development of the proposed regional mental health service system, including outcome and performance measures and financial risk sharing.

The study plan focuses on adult mental health services in an effort to avoid duplication of work by other groups on public mental health services, such as the Mental Health Oversight Advisory Council, the outcome and performance measurement group, and the SB 454 group. The study plan is also designed to concentrate on issues (and potential solutions) that will not conflict with changes made to mental health services due to implementation of a new regional managed care system.

The study considers: statutory admission criteria to the state hospital; potential discharge options that may be used by the director of the Department of Public Health and Human Services once a person has reached maximum benefit of hospitalization; the relationship between the state hospital and the state prison; community commitment statutes; discharge planning from the state hospital and the prison for persons needing mental health services; types of mental health information that accompany persons in the corrections system; types of financial arrangements used in managed care contracts; the potential to leverage additional federal funds; and veterans' mental health services.

The first meeting also included several educational topics. The subcommittee heard presentations on mental illness in adults and serious emotional disturbance (SED) in children. Dr. Hugh Black and Dana Hilyer both noted that there is a "triggering event" that causes mental illness or SED. Examples of a triggering event can range from physical or emotional abuse to divorce. There is not a genetic predisposition to mental illness. Mental illness in adults is caused by a neurologic and brain chemical dysfunction. If SED children receive treatment early enough as many as 3/4 of them can recover.

The subcommittee also heard a panel discussion about the implications of a recent Montana Supreme Court decision (In the Matter of the Mental Health of K.G.F

00-144(8-2-01)). The court established standards as to what constitutes effective legal counsel for respondents in a mental health commitment proceeding. Generally, the court found that attorneys should: represent the desires of the respondent; request continuance of the case for time to prepare; be present at all evaluations by mental health professionals; advise respondents of their right to remain silent; and undertake an adversarial defense on behalf of the respondent. Panelists noted several potential consequences of the decision: longer stays in community hospitals or the state hospital prior to court commitment hearings; higher county costs due to longer hospitalizations prior to disposition of the case; potentially fewer admissions to the state hospital; higher workloads for public defenders; need for education about the decision and mental illness for attorneys and judges; and potential need to hire "friends of the respondent" for persons in mental health commitment hearings.

The next meeting of the HJR 1 study subcommittee will be Nov. 28 in Helena. Subcommittee members are invited to tour community mental health services on Nov. 27. The Nov. 28 agenda will include presentations on: funding public mental health services, eligibility related to funding sources, and access to services resulting from funding; and veterans' mental health services. Please contact Lois Steinbeck at lsteinbeck@mt.gov or at (406) 444-5391 if you have questions or comments.

## LAW AND JUSTICE COMMITTEE

Law and Justice Committee Meets in October... The committee heard briefings from, among others, Chief Justice Karla Gray; Attorney General Mike McGrath; and Bill Slaughter, Director, Department of Corrections (DOC).

Chief Justice Gray introduced Rick Lewis, the Court's new administrator. She commented that the internal procedures and relationships within the Court are at their highest levels in her 10-plus years on the Court. She identified the Court's pursuit of an intermediate court of appeal as among the highest priorities leading up to the 58th Legislative Session, and pledged to keep the committee informed on the progress of this initiative.

Mike McGrath reported on the "dial up" system for electronic gambling, which is an ongoing saga involving various contractual issues, a lawsuit, and a countersuit. He anticipates the legal issues will continue for perhaps the remainder of the interim, but assured the committee that the Department of Justice (DOJ) was moving forward with new vendors.

Larry Fasbender, DOJ Chief of Staff, talked about public safety communications across Montana. He said that entities involved in ensuring public safety are looking for a unified communications system to resolve problems that can and do occur during emergencies. With new FCC restrictions, the current system will need to be replaced. Fasbender said that the creation of a new system would roughly

cost between \$100 million and \$150 million. He did not ask for this money, but advocated that standards be put in place so that, as agencies update their current systems, there will be uniformity.

Wilbur Rehmann, DOJ, Criminal Justice Information Systems Project Manager, told the committee about the cooperative efforts of the DOJ, DOC, and Department of Public Health and Human Services to integrate various data bases, software, data formats, and the like. The goal is to ensure that data bases are current, accurate, complete, easily usable, and integrated to the maximum extent possible.

Chris Tweeten, DOJ Chief Counsel, discussed certain aspects of the tobacco settlement, particularly the issue of non-participating manufacturers. He noted that the state could potentially lose a significant portion of its annual payments under the tobacco settlement if the state does not aggressively enforce the settlement provisions with respect to certain sanctions imposed on these manufacturers. Tweeten said that the DOJ was considering various approaches to ensuring adequate enforcement funding and may recommend that tobacco settlement revenue be used for enforcement.

Bill Slaughter, DOC Director, gave an overview of the recent administrative reorganization of the department. DOC has streamlined the organization from seven divisions to six, with the most significant changes occurring in the administration of health services for corrections populations.

Craig Thomas, Executive Director, Montana Board of Pardons and Parole, provided a history of the Board and reviewed actions of the Board in response to two recent Montana Supreme Court decisions. The Court ruled in West v. Mahoney and in Haney v. Mahoney that the Board must virtually eliminate the use of hearing examiners. Thomas asked the committee for guidance as to how the Board should be restructured over the next year to cope with these decisions.

Committee Adopts Work Plan... Committee staff presented the *Proposed Study Outline and Committee Work Schedule*. The committee tentatively adopted the work plan with minor changes to scheduling and will reconsider the priorities within the study of criminal sentencing under HJR 37.

The Committee will meet Thursday and Friday, Dec. 6 and 7, in Room 137 of the state Capitol. For more information, contact Dave Bohyer at (406) 444-3064 or by e-mail at dbohyer@mt.gov.

## REVENUE AND TRANSPORTATION COMMITTEE

Revenue and Taxation Topics... At long last comes the final installment of the two-part miniseries, "Revenue and Transportation: An Autumn Retrospective". Readers will recall that October's issue of **THE INTERIM** contained a discussion of the Revenue and Transportation Interim Committee's (RTIC or Committee) Sept. 13 and 14 meeting.

RTIC covered a lot of ground in those two days and recapping it in one article proved too unwieldy. Here, then, is the rest of the story.

Department of Revenue and POINTS...House Bill No. 2 directed the Department of Revenue (DOR or Department) to provide a status report to RTIC on the progress of the Process-Oriented Integrated System (POINTS) project. POINTS is intended to integrate the Department's various tax functions and business processes into one system, ideally to avoid redundancy and improve customer service.

As mentioned in previous articles in this publication, POINTS has been plagued by problems since it was first rolled out in December 1999. DOR has categorized the fixes needed in POINTS as either "defects" or "enhancements". Defects are problems identified with the system's failure to perform tasks as designed, and enhancements are defined as functionality that has been requested by users to improve the system's features or operations. Defects are further broken down by where they fall in the five priority levels established by the Department.

In June, DOR reported the following to RTIC:

Total defects and enhancements = 535  
Mission Critical defects (highest priority) = 164  
Level 1 defects (second-highest priority) = 141  
Enhancements = 129

As of August 31, the numbers were:

Total defects and enhancements = 544  
Mission Critical defects = 206  
Level 1 defects = 116  
Enhancements = 117

In an evaluation report prepared for the Legislative Audit Committee,<sup>1</sup> Legislative Audit Division staff presented the following as of September 28:

Total defects and enhancements = 552  
Mission critical defects = 205  
Level 1 defects = 119  
Enhancements = 123

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<sup>1</sup>In June, the Legislative Audit Committee asked Audit Division staff to compile information about POINTS and give an independent assessment of the system's status. Tori Hunthausen, Audit Division staff, provided the results of that assessment and observations at the Audit Committee's Oct. 18 meeting.

The Department said that an average of 33 defects per month were logged during the period between June 18 and August 31, while an average of 29 defects were closed or repaired, creating a backlog of repairs. Given the relatively slow rate of progress, DOR has contracted with a software engineering expert to look at the Department's efforts and advise management on how best to achieve stability in POINTS.

The Department said that a number of organized efforts were underway, in addition to retaining the software engineering expert, assisting the Legislative Audit Division in its evaluation, and considering their suggestions, to move toward stabilization of the system. These efforts include:

In the monthly regression testing process, a defect repair is placed in a simulated production environment to determine how well the repaired module interacts with other modules. This prevents a repair to one module from entering the system and causing new defects with previously functioning portions of the system.

DOR has recognized, and verified by the audit evaluation, that training for the system's users has not been adequate.<sup>2</sup> Training provided before any sort of functionality had been achieved no longer applies and the system users have expressed little confidence in its effectiveness. The Department has established the POINTS Action Line (PAL) team to provide user training as problems arise. During this process, desk references with screen prints of a particular POINTS application are often created to guide a user through a particular function. The PAL team has also developed a training curriculum that exposes users to all of the POINTS modules. The team believes that this cross-training will help users understand how their particular module is connected to other system modules.

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<sup>2</sup>As part of the evaluation process, the Audit Division interviewed randomly-selected POINTS users, many of whom said they have not seen the efficiencies that they expected and that training has been inadequate.

The Department will work with a mediator to resolve continuing disputes with the POINTS project contractor, Unisys, regarding schedule delays and which party is financially responsible for the delays.

A data focus group convened in September to look at the integrity of the data in the system. According to the Audit Division's report, the group is "making progress in quantifying the extent of the data problems." The old systems contained bad data, as well, but users could manually adjust the data, an option that is limited with POINTS.

The Department said that it is holding back a percentage of the money owed the contractor on portions of POINTS II until it is satisfied that the work has been satisfactorily completed.

DOR has identified three near-term project objectives and will report on the progress at RTIC's next meeting. These objectives are:

- to achieve an appropriate resolution of outstanding disputes;
- to review the existing approach to maintenance and defect remediation and make appropriate adjustments; and
- to achieve implementation of a thoroughly tested Phase II Income and Corporate Taxes application.

When asked if POINTS problems had affected the individual income tax refund process, DOR staff reported that nearly all of the individual income tax refunds have been processed except for extended tax returns recently filed.

Reappraisal...Montana law requires DOR to have completed statewide reappraisal of taxable real property by December 31, 2002. The Department reported on efforts to revalue over 800,000 parcels of property (land and improvements), over 50 million acres of agricultural land, and over 4 million acres of forest land.

Montana's ad valorem tax system by definition requires that the tax on real property must be based on its market value or, in the case of agricultural land and forest land, on productive capacity. Property values are constantly changing due to fluctuations in the market, so DOR must periodically conduct reappraisals to reflect those changes and provide fair and accurate value information.

This is a huge task for the Department and management has developed work plans and a progress reporting process and has reshuffled some staff to achieve its goals. Department staff believes reappraisal will be completed on time, despite needing to retrofit an old computer system (due to delays in the POINTS II Property System) and the fact that the reappraisal time frame is shorter than previous cycles and staffing levels are lower.

Liquor License Streamlining...Since last fall, DOR, the Department of Justice (DOJ), the Montana Tavern Association, the Gaming Industry Association, and Rep. Joe McKinney have been working on strategies to shorten the time it takes to obtain a liquor license. DOR reported that with the assistance of Legislative Audit Division

recommendations, it has made significant internal changes to its on-premise liquor licensing process. These changes included: increasing the number of staff trained in the process; cross-training other staff; and establishing a licensing database to track the status of applications and to allow the division administrator to review progress.

DOR said that the average time to process applications has dropped significantly from 193 days in 1999 and 2000 to about 90 days in 2001. The Department has plans to coordinate many of its liquor licensing activities with DOJ and its gaming operator application process.

Tax Policy Development...Department director Kurt Alme briefly discussed DOR's efforts in response to the Governor's call for an economic development and tax reform package. Alme stressed that the administration's goal is a tax reform proposal that encourages the creation and retention of good-paying jobs in a stable business climate.

The administration's tax reform and economic development proposals will be announced in February, following the release of any recommendations by the Citizens' Jury on Montana's Tax System. The Citizens' Jury will be comprised of 18 Montanans, selected to represent a broad range of demographic characteristics. The jury will meet in Helena for a week at the end of January to "focus on what type of taxes should finance government services in Montana and how, if at all, the mix of taxes can be changed to improve the state's economy."<sup>3</sup>

Committee Considers SJR 21 Study Plan of the Taxation of Agricultural Land and Nonqualifying Agricultural Land...After a thorough discussion of the study plan and the complexities inherent in the taxation of agricultural land and other rural land, a consideration of additional work plan items, and a recognition of the controversy the study may generate, the Committee formed a subcommittee (Sen. Glaser, Rep. Story, Rep. Kaufmann, and Rep. Devlin) to concentrate on staff assignments related to SJR 21 (see the September issue of **THE INTERIM** for prior coverage). Committee time is valuable and it is important that the study be kept to manageable proportions, so the subcommittee will work with staff on assigning research projects and identifying information to bring to the full Committee.

Avoiding or mitigating the unintended consequences of any kind of agricultural land tax policy revision will be the Committee's major challenge. To gain a better understanding of possible unintended consequences, RTIC has invited individuals and organizations who may have a stake or interest in this subject to attend the Committee's Dec. 4 meeting and provide testimony on what changes, if any, need to be regarding the taxation of agricultural land and other rural land. Individuals and

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<sup>3</sup> Excerpt is from a fact sheet dated October 12, 2001, distributed by the Montana Citizens Partnership, sponsor of the Citizens' Jury.

groups were identified from the Commissioner of Political Practices' 2001-2002 list of registered lobbyists, and letters were sent to those who, based on their lobbying activities and organization missions, may wish to provide input.

If you did not receive one of these letters (dated Oct. 19) and want to appear before the Committee to comment about the SJR 21 study, please contact Miko Owa, RTIC's secretary, at mowa@mt.gov or (406) 444-3073. She will add your name to the mailing list and you will be provided with additional details.

Committee Scheduled to Meet in December...RTIC's next meeting is scheduled for Monday and Tuesday, Dec. 3 and 4 at the Capitol building in Helena. Times and room numbers will be announced in November. For more information about RTIC and its activities, contact Leanne Kurtz, Committee Staff at lekurtz@mt.gov or by phone at (406) 444-3064.

## TRANSITION ADVISORY COMMITTEE

November Meeting Scheduled...The committee will meet Nov. 16 at 10 a.m. in Room 317 of the Capitol. The committee will consider a work plan and discuss topics to be included in its annual report on the status of electric utility restructuring. Although the agenda has not been finalized, other agenda items may include:

- an update on Montana Power Company's proposed sale of its transmission and distribution property to Northwestern;
- the status of Montana Power Company's energy portfolio;
- energy generation projects proposed in Butte, Roundup, and Broadview; and
- the agreement between Northwestern and Montana Environmental Information Center to allow construction of gas turbines in Great Falls.

A draft work plan will be available on the committee's website the week of Nov. 5 (<http://www.leg.mt.gov> and follow the links to the Committee's website). For more information about the committee or to be put on the committee's mailing list, contact Jeff Martin, Legislative Services Division, at (406) 444-3595 or by e-mail at jmartin@mt.gov.

## CHILDREN, FAMILIES, HEALTH, AND HUMAN SERVICES COMMITTEE

Committee to Meet in November...The next meeting of the Committee will be in Helena on Nov. 16. The Department of Public Health and Human Services divisions on the agenda for that meeting include the Quality Assurance Division, the Health Policy and Services Division, and the Child and Family Services Division. The Committee will also look at the ramifications of the reductions in children's services in mental health and the smaller than requested appropriations for child protective services programs.

The stakeholders' meeting on the SJR 8 study on the privatization of foster care and adoptive services and the presentation of a study plan has been postponed to a later date.

If you are interested in attending the stakeholders' meeting or wish to be placed on the interested persons list, please contact Susan Byorth Fox, Legislative Research Analyst, Legislative Services Division, at (406) 444-3597 or at [sfox@mt.gov](mailto:sfox@mt.gov).

## DISTRICTING AND APPORTIONMENT COMMISSION

Senate Majority Leader Fred Thomas has appointed a replacement for Elaine Sliter, who was recently appointed to the Montana House of Representatives. The Commission welcomes Greg Barkus of Kalispell as a representative of the western region.

The first public hearings on proposed regional plans for new legislative districts for northcentral and central Montana will be held Tuesday, Nov. 13, in Great Falls and Wednesday, Nov. 14, in Browning. The northcentral region includes Glacier, Pondera, Toole, Liberty, Hill, Blaine, Teton, Chouteau, Cascade, Judith Basin, Fergus, and Petroleum counties. Flathead and Lake counties are also affected by these plans, but public hearings will be held in those areas next spring before the adoption of boundaries in those counties. The schedule for the November meetings is:

Tuesday, Nov. 13 - Great Falls

3:00 p.m. Executive Session - no testimony will be taken, Energy West Hospitality Room

7:00 p.m. Public Hearing - explanation of plans and public testimony, City Commission Chambers, Civic Center, Room 206 (southeast entrance)

Wednesday, November 14 - Browning

7:00 p.m. Public Hearing - explanation of plans and public testimony, School Administration Building, Board Room

Commission staff has provided maps, descriptions, and analysis to the clerk and recorders, central committees, and legislators in the affected region. Maps will be available for viewing on the Commission's website. Written testimony on the proposed plans will be accepted for three weeks following the public hearing. Please send any written testimony c/o Susan Fox at the Legislative Services Division (see the mailing address below) for distribution to the Commissioners. The Commission will not make any decisions on plans until after written testimony is received.

An additional hearing on the Hilene may be held next January. The northeast and southeast regions of the state are the next areas scheduled for redistricting, with public hearings to be held from January through March, 2002. Staff will visit the southeast region in December and January. For more information or to be placed on the Commission's interested persons list, please contact Susan Byorth Fox at the

Legislative Services Division, P.O. Box 201706, Helena MT 59620, (406) 444-3597, or [sfox@mt.gov](mailto:sfox@mt.gov).

TIME AND TIDE

THE BACK PAGE

Event	Days remaining
Target date for completion of interim committee work (September 15, 2002)	319
General election (November 5, 2002)	370
58th Legislature convenes (January 6, 2003)	432

Tax Credits and Purchasing Pools: Implications for Affordable Health Insurance

Gordy Higgins, Legislative Research Analyst

INTRODUCTION

State and federal policymakers have struggled for years with ways to control rising health care costs, decrease the number of uninsured people, and provide access to affordable, quality health care services. Over the last 15 years in Montana, at least four study projects were completed by legislative interim committees, Executive Branch agencies, and special task forces. That doesn't include the research efforts conducted by interest groups, industry associations, and consumer advocates, or the dozens of bills that were introduced, debated, and acted upon in Montana and in the nation's Capitol. The proposals took the shape of sweeping reform packages, incremental changes, and everything in between. The result is a complex collection of federal and state law that makes the process of finding workable solutions exceedingly difficult. This interim, the SJR 22 Subcommittee on Health Care and Health Insurance has been asked to conduct a comprehensive study of health care costs and health insurance coverage in Montana and recommend policy ideas to the next Legislature. One of the Subcommittee's two goals is to develop strategies to increase the number of people who have access to affordable health insurance coverage.<sup>1</sup> One way to achieve that goal is to analyze whether changes to tax policy, either alone or in conjunction with other policy ideas, would lower the percentage of the uninsured.<sup>2</sup>

There are a few provisions in Montana tax law that offer credits and deductions as a way for individuals and businesses to meet their needs to provide health insurance and contain costs associated with health insurance and health care. Past Montana legislative sessions have entertained numerous proposals to offer tax credits for the purpose of assisting businesses and individuals purchase health insurance.

<sup>1</sup>The second goal is to develop policies to provide quality health care services in a cost-effective way.

<sup>2</sup>The reader should not infer from this statement that the Subcommittee is only looking at tax policy as a way to increase insurance coverage. Other specific ideas have been raised, including the possibility of expanding existing public insurance programs. That latter idea, along with numerous others, will be part of the comprehensive study approach.

The question for the SJR 22 Subcommittee is to determine whether tax credits are an effective way to meet the goal of increasing insurance coverage in the state. That basic question raises several other specific questions. Those questions include determining the fiscal impact of a proposed tax credit, how a tax credit proposal ought to be structured in order to target a specific component of the uninsured population, how the tax credit should be structured to ensure ease of use by taxpayers and administration by the Department of Revenue, and, if viewed as one piece of the state's health policy puzzle, whether a tax credit should be combined with other ideas to maximize effectiveness.

This article poses a series of questions and offers some suggestions raised by health and tax policy analysts. It also provides a brief description of existing Montana tax policies related to health insurance and health care and discusses a possible direction for future Subcommittee action.

### **TAX-BASED PROGRAMS AND PURCHASING POOLS TO INCREASE HEALTH INSURANCE COVERAGE**

Whether it be the deductibility of health insurance premiums or refundable tax credits, the tax system at the state and federal level is an important source of subsidy for health insurance coverage. Tax deductibility is likely to help those in higher income brackets who pay higher taxes, whereas refundable credits would extend some benefit to those who may not have any tax liability and have either opted not to take up employer-sponsored coverage or have no access to employer-sponsored coverage.

Focusing, for the time being, only on refundable tax credits begins to illustrate a few key points that health policy experts suggest lawmakers consider. First, if refundable tax credits are established for individual taxpayers, some analysts advise that they be designed to complement existing coverage sources, such as allowing eligible employees to use the credit to fund their portion of the contribution to an employer-sponsored plan.<sup>3</sup> Another option that has been proposed is to allow people eligible for tax credits to buy into public programs, or combine public subsidies with tax credits to make coverage in the individual market more affordable.<sup>4</sup> If neither of these options prove workable, the recipients of tax credits must access the individual market to find coverage. In the individual market, insurers usually rate the risks of the individual and base rates on a person's age, health status, and previous illnesses. Analysts from the Center for Studying Health System Change, point out that without significant reforms in the individual market, namely underwriting restrictions, the

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<sup>3</sup>*Stand-Alone Health Insurance Tax Credits Aren't Enough*, Center for Studying Health System Change, Issue Brief No. 41, July 2001.

<sup>4</sup>*Ibid.*

success of tax credits for purchasing health insurance may be disappointing.<sup>5</sup>

Recently, the move has been to determine whether individual solutions that have exhibited limited success can be combined to provide a more comprehensive answer to the issue of high rates of uninsured people. One area that seems to be gaining momentum is merging tax credits with health insurance purchasing pools. The concept behind purchasing pools is that they may offer similar advantages currently being realized by large group plans or large employer plans. Purchasing pools have the effect of providing additional choices for consumers, pooling risks, achieving greater bargaining power in the market, and promoting potential cost-savings as a result of economies of scale.<sup>6</sup> The rationale behind this marriage of ideas is that by mimicking large employers, which a purchasing pool is designed to do, individuals seeking health insurance would be brought together on the basis of income, not health status. In effect, pool participants would realize the benefits of group rating mechanisms rather than individual risk rating.

There are a number of design issues associated with developing effective purchasing pools combined with refundable tax credits. Just of few of these include determining who is eligible for the tax credit and enrollment into the pool; what would the standard benefit package be; how the pools would interact with existing state insurance regulations such as mandated benefit requirements; whether all small employers must purchase coverage through the pool; and whether to require that anyone receiving a tax credit be required to join a pool.<sup>7</sup>

As the SJR 22 Subcommittee begins its deliberations on the various approaches designed to expand insurance coverage and make coverage more affordable to those who have it now, it must work to understand what opportunities exist currently in Montana and how restructuring those opportunities will best meet the goals and objectives the Subcommittee has established. The remainder of this article lays the groundwork for additional work in the area of tax policy considerations by describing, briefly, what the Subcommittee has to work with.

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<sup>5</sup>*Ibid.*

<sup>6</sup>Alain Enthoven, "Health Plan Purchasing Cooperatives: Helping the Market to Work for Consumers Who Are Not Sponsored by Large Employers," Discussion Draft, January 7, 2000.

<sup>7</sup>Health Care Financing & Organization, Findings Brief, Vol. 4, Issue 1, June 2000, and *Stand-Alone Health Insurance Tax Credits Aren't Enough*, Center for Studying Health System Change, Issue Brief No. 41, July 2001.

## MONTANA TAX POLICY PROVISIONS

As part of its biennial report to the Governor and Legislature, the Department of Revenue (Department), includes a tax expenditure report. In that report, the Department estimates revenue losses associated with the use of a variety of tax deductions, credits, and exclusions. This loss of revenue, or tax expenditure, represents a good starting point for the Subcommittee to become familiar with what tax policies exist as they relate to health insurance and health care and the estimated use, in terms of percentage of Montanans, and overall cost.

A tax expenditure is a provision of the tax code that provides for special exclusions, exemptions, deductions, deferrals, or preferential tax rates that result in forgone revenue.<sup>8</sup> Generally, the purpose of a tax expenditure is to provide financial assistance to a certain group of taxpayers, or provide an economic incentive that encourages specific taxpayer behavior. In most cases, financial assistance or behavioral incentives could be accomplished through direct government spending programs to those targeted groups.<sup>9</sup> The Department provides some guidelines for policymakers to use when evaluating the effectiveness of tax expenditures as a policy tool. In effect, tax expenditure estimates should be viewed as a measure of the amount of relief, assistance, or subsidy currently being provided through the tax codes, and not necessarily as the amount of revenue that would be realized by repealing expenditure provisions currently in law.<sup>10</sup> What follows is a description of various tax expenditure provisions in law that may affect decisions related to health care and health insurance.

### HEALTH-RELATED INDIVIDUAL INCOME TAX EXPENDITURES

*The Montana Medical Savings Account (15-61-202, MCA).* The medical savings account offers resident taxpayers an opportunity to save money for medical expenses by contributing money to an account administered by either an account administrator or the resident taxpayer. The taxpayer may contribute any amount to the account, but only the first \$3,000 annually may be used to reduce taxable income. Money left in the account, or withdrawn for eligible medical expenses, is not subject to taxation in Montana, but is subject to taxation at the federal level.

Eligible medical expenses are defined by the IRS Code Section 213 (d) and include items such as health insurance premiums, prescription drugs, medical, dental, and nursing care, eyeglasses, crutches, hearing aids, and certain travel and lodging

<sup>8</sup>Montana Department of Revenue, *Biennial Report*, July 1, 1998 to June 30, 2000, p. 103.

<sup>9</sup>*Ibid.*

<sup>10</sup>*Ibid.*

expenses associated with receiving medical care. Long-term care insurance for the account holder or the account holders dependents is also an eligible expense that would not be subject to taxation if withdrawn.

*Medical Insurance Premium Expense Deduction (15-30-121 (1), MCA).* A Montana taxpayer may deduct allowable health insurance premiums. The premiums must be paid by the taxpayer with after-tax dollars. The purpose of this deduction is to provide assistance to taxpayers paying out-of-pocket insurance premiums.

*Medical and Dental Expenses (15-30-121 (1), MCA).* Expenditures for specified medical expenses are deductible to the extent that they exceed 7.5% of the taxpayer's adjusted gross income. This deduction targets both taxpayers who have unusually large and unplanned medical costs and taxpayers who may not have health insurance.

*Disability Insurance Tax Credit (15-30-129, MCA and 15-31-132, MCA).* Employers with 20 or fewer employees may obtain a non-refundable tax credit up to \$3,000 for expenditures on employee health insurance premiums.<sup>11</sup> The credit may not exceed 50% of the premium cost of each employee and may not be claimed for a period of more than three years and the employer may not be granted the credit within 10 years of the last consecutive credit claimed. This credit may be applied against individual income taxes or corporation license taxes. The Department estimates that this tax credit results in a tax expenditure of less than \$25,000. The table shown below provides an estimate by income group of the tax expenditures associated with individual income tax deductions and exclusions.

**Health-related Income Tax Expenditures by Decile Group**  
**Forecast Tax Year 2001<sup>12</sup>**

Decile Group	Income Bracket	Medical Savings Accounts		Medical Insurance Premium		Medical Deductions	
		Households	% of Total	Households	% of Total	Households	% of Total

<sup>11</sup>The term "disability insurance" as defined in 33-1-207, MCA, includes health insurance within its meaning.

<sup>12</sup>Each decile group includes one-tenth of all households filing income tax returns. The first decile group includes households with the very lowest incomes, while the tenth decile group includes those households having the highest incomes. The decile groups are based on actual 1999 incomes, but the tax expenditures are those projected to calendar year 2001.

1	\$0 - 5,900	1	0.00%	56	0.02%	65	0.02%
2	\$5,901 - 7,250	4	0.02%	759	0.18%	680	0.26%
3	\$7,251 - 13,680	13	0.14%	3,314	1.16%	2,555	1.48%
4	\$13,681 - 17,600	44	0.79%	5,083	2.57%	3,456	2.95%
5	\$17,601 - 21,140	93	1.66%	7,358	5.29%	4,744	5.48%
6	\$21,141 - 32,500	150	3.86%	9,982	8.72%	6,268	9.60%
7	\$32,501 - 37,200	205	5.93%	10,691	11.78 %	6,457	12.71 %
8	\$37,201 - 52,260	287	11.22 %	12,684	16.46 %	7,330	17.85 %
9	\$52,261 - 70,940	410	19.98 %	14,139	21.52 %	7,679	20.88 %
10	\$70,941 - +	734	56.41 %	16,110	32.30 %	5,865	28.77 %

Compiled from the *Biennial Report of the Department of Revenue*, July 1, 1998 to June 30, 2000.

### CONCLUSION

Using tax credits in combination with purchasing pools is an idea that may offer lawmakers an opportunity to tailor an effective solution to address health insurance coverage in Montana. By understanding how existing deductions and credits are used today, and designing a purchasing pool concept that reaches a targeted section of the uninsured and underinsured, the SJR 22 Subcommittee may be able to take a small but important step toward helping Montanans achieve access to affordable health insurance.



## INTERIM CALENDAR

UNLESS OTHERWISE SPECIFIED,  
ALL ROOM DESIGNATIONS ARE IN THE CAPITOL BLDG.

### NOVEMBER

November 2, Local Government and Education Committee, Room 137, 9 a.m.

November 9, Montana Dental Access Summit

November 16, Children and Families Committee, Room 137, 8 a.m.

November 16, Transition Advisory Committee, Room 317, 10 a.m.

November 30, Legislative Council, Room 102

November 27, HJR 1 Public Mental Health Services Subcommittee tour of community mental health services

November 28, HJR 1 Study of Public Mental Health Services Subcommittee, Room 102, 8 a.m.

November 29, SJR 22 Subcommittee, Room 137, 10 a.m.

November 30, Economic Affairs Committee, Room 137

November 30, Legislative Council, Room 102

### DECEMBER

December 3 and 4, Revenue and Transportation Committee

December 6, SB 162 Subcommittee, Room 102, 1:30 p.m.

December 6 and 7, Law and Justice Committee, Room 137

December 7, Legislative Finance Committee, Room 102

December 10, Environmental Quality Council subcommittees

December 11, Environmental Quality Council